

180604

Patricia Banks Morrison
Senior Counsel

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June 30, 2006

The Honorable Charles L.A. Terreni
Chief Clerk & Administrator
Public Service Commission of South Carolina
ATTN: Docketing Department
101 Executive Center Drive
Columbia, South Carolina 29210

RE: Docket No. 2002-5-G – Annual Review of South Carolina Electric & Gas
Company's Purchased Gas Adjustments and Gas Purchasing Policies.

Dear Mr. Terreni:

Order No. 2002-747 in the above docket directed South Carolina Electric & Gas Company ("SCE&G") to provide the Commission with quarterly updates related to its review of the benefits of diversifying its gas supply. This was reiterated in the Commission's Order No. 2003-652 dated November 17, 2003. Pursuant to those orders, enclosed for filing are ten (10) copies of the update, entitled "South Carolina Electric & Gas Company Natural Gas Supply Diversity Report, June 30, 2006." This report should be read in conjunction with the first report filed by SCE&G on March 31, 2003, and with all reports filed thereafter.

If there are any questions, please do not hesitate to contact me.

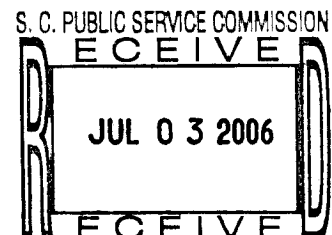
With kind regards,

A handwritten signature in cursive script, appearing to read "P. Morrison".

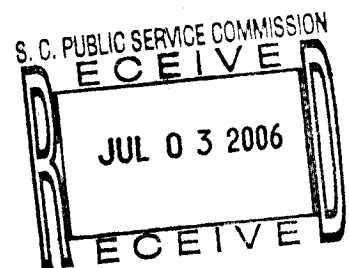
Patricia B. Morrison

PBM/kms
Enclosures

cc: Dan Arnett, ORS
Mr. Brent Sires



**South Carolina
Electric & Gas Company
Natural Gas
Supply Diversity Report
June 30, 2006**



INTRODUCTION

South Carolina Electric & Gas Company (“SCE&G”) is a distributor of natural gas in South Carolina. SCE&G contracts with South Carolina Pipeline Company (“SCPC”), an intrastate pipeline operating wholly within South Carolina, for the purchase of all of its natural gas supplies and delivery within the state to SCE&G’s 193 metered delivery points. SCE&G’s purchases from SCPC are made under SCPC’s tariffs and rates that are approved by the Public Service Commission of South Carolina (“Commission”). SCPC purchases gas in the interstate gas markets and transports it to South Carolina using interstate pipeline storage and transportation services that it holds to serve SCE&G and its other customers.

In an order dated October 28, 2002, the Commission required SCE&G to review the benefits of diversifying its gas supply, which would include consideration of the direct purchase of its own gas supply in the marketplace, and to provide the Commission with quarterly updates on such activities commencing in the first quarter of 2003.¹

The Commission in an order dated November 17, 2003, instructed SCE&G to continue to file these quarterly updates.² This report has been prepared and filed in response to this Commission order. SCE&G files this Supply Diversification Report as a continuation of earlier reports filed at the end of each quarter from March 31, 2003 through June 30, 2006; as well as testimony filed by Dan Ives on behalf of SCE&G in its annual PGA Docket No. 2003-5-G.

GAS COST

SCE&G has described in detail the method by which it buys 100% of its natural gas supplies from South Carolina Pipeline Corporation (SCPC). By contracting with a group of over 70 qualified natural gas marketers and producers and currently purchasing from

¹ See Docket No. 2002-5-G – Order No. 2002-747, October 28, 2002

² See Docket No. 2003-5-G - Order No. 2003-652, November 17, 2003

some 30 of these, SCE&G believes that SCPC purchases its natural gas supply in a very diverse fashion, which in totality, is representative of the market as a whole.

SCE&G understands that SCPC continuously monitors the market price of gas in order to purchase prudently. The gas market over the last few years has experienced unprecedented volatility, and thus pricing has varied significantly. A purchaser of natural gas makes its decisions based on historical data, current pricing trends, and the needs of its customers in order to provide reliable, competitively priced supplies.

In its reply to Question No. 6 of PSC Data Request No. 1 in Docket 2003-5-G, SCE&G produced exhibits illustrating its monthly check of SCPC commodity purchase prices as compared to the indices of Inside FERC First of Month and Gas Daily Average. The period submitted encompassed September 2002 through July 2003. The attachments to this filing continue the same format of price comparison for the period of March 2006 through May 2006.

SCE&G believes SCPC's purchasing is consistent with competitive market pricing. Additionally, SCE&G experienced no supply failures during the review period indicating a continuing reliable supply of gas to meet SCE&G's load requirements.

NON-GAS COST

Intrastate Infrastructure

SCE&G, a distributor of natural gas in South Carolina, does not receive direct service from an interstate pipeline. The infrastructure to make the connection between the interstate pipe and the distribution pipe of SCE&G is provided by SCPC. SCPC not only provides this connection for SCE&G but also to a number of other Sales for Resale ("SFR") and industrial customers throughout South Carolina. In addition, SCPC uses two LNG facilities to provide peaking service in order to meet its customers' load requirements. The rates and terms of service applied to SCE&G for these facilities are made under SCPC tariffs that are approved by the Commission.

Interstate Infrastructure

SCPC is currently connected to three interstate pipelines, Southern Natural Gas (“Southern”), SCG Pipeline and Transcontinental Gas Pipeline (“Transco”). Southern’s pipe terminates just inside the state at Aiken, SCG interconnects with SCPC’s system in Jasper County, South Carolina and Transco passes through the northwestern side of South Carolina with its main point of interconnection at Grover in the up-state. SCPC has firm contracts with the Southern and Transco pipelines for Firm Transportation (“FT”) and storage service to serve its SFR and industrial customers. The interconnection with the SCG pipeline will provide an additional source of gas primarily from the Elba Island LNG facility located in Savannah, Georgia. The rates and terms of service applied to SCPC for these services are set and approved by the Federal Energy Regulatory Commission (FERC).

SCPC’s Other Services

SCPC provides an Industrial Sales Program and a Hedging Program. Both of these programs are part of its tariff and have Commission oversight and approval. These programs are reviewed in SCPC’s annual review of its purchased gas cost.

SUMMARY

The non-gas charges that SCPC has included in its tariff are set and approved by the Commission or the FERC and therefore are charged uniformly to all similarly situated customers. These include the recovery of costs that are necessarily incurred regardless of who purchases the commodity. The commodity cost of gas, based on SCE&G’s continuous review and that of the Commission, is purchased from a diverse and open marketplace at prices consistent with market conditions. SCE&G believes that if it purchased its own gas, it would purchase gas in a very similar manner to SCPC, from the same producers as SCPC, in accordance with the same pricing indices as SCPC, transport on the same interstate pipelines as SCPC, and also transport on SCPC to SCE&G’s delivery points.

ATTACHMENTS

March-06

* These are SCPC's Commodity Purchases for the Month - This Data is taken from their Form 1 "Gas Inputs to System and Derivation of Cost of Gas" and includes Index Premiums, Shrinkage, Interstate Commodity Mark-ups, ACA, GRI and SCRM adders.

Mar-06				
	Purchased		Price	Cost
SNG-1	69,024	\$	7.4968	\$ 517,456.64
SNG-2	977,814	\$	7.3364	\$ 7,173,658.36
SNG-3	1,243,973	\$	7.3072	\$ 9,090,001.58
SNG-4	521,709	\$	7.3031	\$ 3,810,090.96
SNG-5	64,057	\$	7.2340	\$ 463,387.98
SNG-6	71,517	\$	7.0252	\$ 502,424.80
SNG-7	96,074	\$	6.7161	\$ 645,239.80
SCG-1	19,980	\$	7.7161	\$ 154,167.98
SCG-2	40,000	\$	7.4156	\$ 296,624.00
SCG-3	139,242	\$	7.2686	\$ 1,012,093.96
Transco-1	300,553	\$	7.6016	\$ 2,284,697.52
Transco-2	597,996	\$	7.5192	\$ 4,496,478.60
Transco-3	1,347,733	\$	7.4927	\$ 10,098,110.52
Transco-4	138,561	\$	7.0364	\$ 974,967.84
Total	5,628,233			\$ 41,519,400.54
Wtd Price				\$ 7.3770

Below are published indices that are reviewed by SCE&G in order to monitor SCPC's commodity purchase price and have been adjusted to include: Index Premiums, Shrinkage, Interstate Commodity Mark-ups, ACA, GRI and SCRM adders.

First of Month Prices

Source	Location	Mar-06
Inside FERC	Southern Natural Gas-LA 0001	\$ 7.34
Inside FERC	Transco-Zone 1 0811	\$ 6.89
Inside FERC	Transco-Zone 2 0821	\$ 7.27
Inside FERC	Transco-Zone 3 0831	\$ 7.38
Inside FERC	Transco-Zone 4 0841	\$ 7.60

Gas Daily Average Prices

Date		Southern Natural, La. Daily		Transco Z1 Daily		Transco Z2 Daily		Transco Z3 Daily
1-Mar-2006	\$	6.7527	\$	6.3968	\$	6.6618	\$	6.7995
2-Mar-2006	\$	6.7527	\$	6.1062	\$	6.7281	\$	6.7485
3-Mar-2006	\$	6.8502	\$	6.2132	\$	6.7434	\$	6.8505
4-Mar-2006	\$	6.7527	\$	6.0756	\$	6.6567	\$	6.7434
5-Mar-2006	\$	6.7527	\$	6.0756	\$	6.6567	\$	6.7434
6-Mar-2006	\$	6.7527	\$	6.0756	\$	6.6567	\$	6.7434
7-Mar-2006	\$	6.6859	\$	6.1113	\$	6.6058	\$	6.6924
8-Mar-2006	\$	6.7475	\$	6.3050	\$	6.5803	\$	6.7230
9-Mar-2006	\$	6.5627	\$	6.3305	\$	6.4732	\$	6.6109
10-Mar-2006	\$	6.4293	\$	6.2081	\$	6.3509	\$	6.4069
11-Mar-2006	\$	6.5422	\$	6.2234	\$	6.3713	\$	6.5293
12-Mar-2006	\$	6.5422	\$	6.2234	\$	6.3713	\$	6.5293
13-Mar-2006	\$	6.5422	\$	6.2234	\$	6.3713	\$	6.5293
14-Mar-2006	\$	7.0864	\$	6.6313	\$	6.8912	\$	7.0289
15-Mar-2006	\$	7.3738	\$	7.0085	\$	7.2889	\$	7.3399
16-Mar-2006	\$	7.3122		N/A	\$	7.1512	\$	7.3144
17-Mar-2006	\$	7.3430	\$	6.7944	\$	7.2430	\$	7.3450
18-Mar-2006	\$	7.3533	\$	6.7842	\$	7.2940	\$	7.3450
19-Mar-2006	\$	7.3533	\$	6.7842	\$	7.2940	\$	7.3450
20-Mar-2006	\$	7.3533	\$	6.7842	\$	7.2940	\$	7.3450
21-Mar-2006	\$	7.2404	\$	6.7230	\$	7.2277	\$	7.3042
22-Mar-2006	\$	7.0350	\$	6.5650	\$	7.0748	\$	7.1410
23-Mar-2006	\$	7.2968	\$	6.9320	\$	7.3042	\$	7.3908
24-Mar-2006	\$	7.3636	\$	7.0289	\$	7.2889	\$	7.3908
25-Mar-2006	\$	7.6921	\$	7.2430	\$	7.5693	\$	7.6457
26-Mar-2006	\$	7.6921	\$	7.2430	\$	7.5693	\$	7.6457
27-Mar-2006	\$	7.6921	\$	7.2430	\$	7.5693	\$	7.6457
28-Mar-2006	\$	7.2301	\$	6.8607	\$	7.2022	\$	7.3042
29-Mar-2006	\$	7.3328	\$	7.0289	\$	7.2991	\$	7.4010
30-Mar-2006	\$	7.3020	\$	7.0391	\$	7.2175	\$	7.2889
31-Mar-2006	\$	7.3122	\$	6.9830	\$	7.1461	\$	7.2481

April-06

* These are SCPC's Commodity Purchases for the Month - This Data is taken from their Form 1 "Gas Inputs to System and Derivation of Cost of Gas" and includes Index Premiums, Shrinkage, Interstate Commodity Mark-ups, ACA, GRI and SCRM adders.

Apr-06			
	Purchased	Price	Cost
SNG-1	68,754 \$	7.8820 \$	541,919.38
SNG-2	113,014 \$	7.6565 \$	865,293.18
SNG-3	1,615,554 \$	7.4853 \$	12,092,915.88
SNG-4	2,042,797 \$	7.3907 \$	15,097,800.07
SNG-5	283,566 \$	7.3557 \$	2,085,814.81
SNG-6	95,795 \$	7.1705 \$	686,902.66
SNG-7	142,419 \$	6.9910 \$	995,658.02
SNG-8	73,990 \$	6.8742 \$	508,620.77
SCG-1	120,000 \$	7.3607 \$	883,279.20
Transco-1	30,918 \$	8.7175 \$	269,529.00
Transco-2	39,390 \$	7.5315 \$	296,664.60
Transco-3	175,230 \$	7.1231 \$	1,248,174.82
Total	4,801,427		\$ 35,572,572.39
Wtd Price			\$ 7.4088

Below are published indices that are reviewed by SCE&G in order to monitor SCPC's commodity purchase price and have been adjusted to include: Index Premiums, Shrinkage, Interstate Commodity Mark-ups, ACA, GRI and SCRM adders.

First of Month Prices

Source	Location	Apr-06
Inside FERC	Southern Natural Gas-LA 0001	\$ 7.44
Inside FERC	Transco-Zone 1 0811	\$ 7.00
Inside FERC	Transco-Zone 2 0821	\$ 7.41
Inside FERC	Transco-Zone 3 0831	\$ 7.48
Inside FERC	Transco-Zone 4 0841	\$ 7.50

Gas Daily Average Prices

Date		Southern Natural La. Daily		Transco Z1 Daily		Transco Z2 Daily		Transco Z3 Daily
1-Apr-2006	\$	7.1326	\$	6.8505	\$	7.1665	\$	7.2277
2-Apr-2006	\$	7.1326	\$	6.8505	\$	7.1665	\$	7.2277
3-Apr-2006	\$	7.1326	\$	6.8505	\$	7.1665	\$	7.2277
4-Apr-2006	\$	7.3379	\$	7.0187	\$	7.2940	\$	7.4673
5-Apr-2006	\$	7.3482	\$	7.1767	\$	7.3857	\$	7.5183
6-Apr-2006	\$	7.1685	\$	6.9830	\$	7.2073	\$	7.3297
7-Apr-2006	\$	7.2968	\$	7.0799	\$	7.2073	\$	7.3552
8-Apr-2006	\$	7.0042	\$	6.6975	\$	6.9014	\$	7.1105
9-Apr-2006	\$	7.0042	\$	6.6975	\$	6.9014	\$	7.1105
10-Apr-2006	\$	7.0042	\$	6.6975	\$	6.9014	\$	7.1105
11-Apr-2006	\$	7.0145	\$	6.8097	\$	6.8301	\$	7.1105
12-Apr-2006	\$	7.1788	\$	6.9167	\$	7.0442	\$	7.2226
13-Apr-2006	\$	6.9734	\$	6.6516	\$	6.7536	\$	6.9116
14-Apr-2006	\$	6.7732	\$	6.4630	\$	6.5599	\$	6.7128
15-Apr-2006	\$	6.7732	\$	6.4630	\$	6.5599	\$	6.7128
16-Apr-2006	\$	6.7732	\$	6.4630	\$	6.5599	\$	6.7128
17-Apr-2006	\$	6.7732	\$	6.4630	\$	6.5599	\$	6.7128
18-Apr-2006	\$	7.4560	\$	7.2430	\$	7.2430	\$	7.4163
19-Apr-2006	\$	7.7588	\$	7.5846	\$	7.6100	\$	7.7171
20-Apr-2006	\$	7.8872	\$	7.7426	\$	7.7834	\$	7.8751
21-Apr-2006	\$	8.1695	\$	8.0128	\$	8.0230	\$	8.1453
22-Apr-2006	\$	7.7486	\$	7.5999	\$	7.6610	\$	7.8395
23-Apr-2006	\$	7.7486	\$	7.5999	\$	7.6610	\$	7.8395
24-Apr-2006	\$	7.7486	\$	7.5999	\$	7.6610	\$	7.8395
25-Apr-2006	\$	7.9898	\$	7.6610	\$	7.8446	\$	8.0128
26-Apr-2006	\$	7.6048	\$	7.4622	\$	7.4571	\$	7.7069
27-Apr-2006	\$	7.3584	\$	7.0952	\$	7.1716	\$	7.4826
28-Apr-2006	\$	7.0248	\$	6.6720	\$	6.8352	\$	7.2277
29-Apr-2006	\$	7.0248	\$	6.6720	\$	6.8352	\$	7.2277
30-Apr-2006	\$	7.0248	\$	6.6720	\$	6.8352	\$	7.2277

May-06

* These are SCPC's Commodity Purchases for the Month - This Data is taken from their Form 1 "Gas Inputs to System and Derivation of Cost of Gas" and includes Index Premiums, Shrinkage, Interstate Commodity Mark-ups, ACA, GRI and SCRM adders.

May-06				
	Purchased		Price	Cost
SNG-1	3,130,190	\$	7.3561	\$ 23,026,126.28
SNG-2	69,442	\$	6.8404	\$ 475,009.35
SNG-3	61,118	\$	6.6875	\$ 408,726.85
SNG-4	112,362	\$	6.6399	\$ 746,069.60
SNG-5	70,821	\$	6.3959	\$ 452,966.48
SNG-6	50,665	\$	6.2229	\$ 315,281.64
SNG-7	76,152	\$	5.9977	\$ 456,734.46
Transco-1	448,229	\$	7.5024	\$ 3,362,802.78
Transco-2	133,723	\$	7.2558	\$ 970,273.97
Total	4,152,702			\$ 30,213,991.41
Wtd Price				\$ 7.2757

Below are published indices that are reviewed by SCE&G in order to monitor SCPC's commodity purchase price and have been adjusted to include: Index Premiums, Shrinkage, Interstate Commodity Mark-ups, ACA, GRI and SCRM adders.

First of Month Prices

Source	Location	May-06
Inside FERC	Southern Natural Gas-LA 0001	\$ 7.40
Inside FERC	Transco-Zone 1 0811	\$ 7.13
Inside FERC	Transco-Zone 2 0821	\$ 7.39
Inside FERC	Transco-Zone 3 0831	\$ 7.45
Inside FERC	Transco-Zone 4 0841	\$ 7.55

Gas Daily Average Prices

Date		Southern Natural, La. Daily		Transco Z1 Daily		Transco Z2 Daily		Transco Z3 Daily
1-May-2006	\$	6.7270	\$	6.8403	\$	6.5956	\$	6.8403
2-May-2006	\$	6.6654	\$	6.7230	\$	6.5701	\$	6.7230
3-May-2006	\$	6.8399	\$	6.9116	\$	6.7944	\$	6.9116
4-May-2006	\$	6.7219	\$	6.8454	\$	6.6415	\$	6.8454
5-May-2006	\$	6.6295	\$	6.7179	\$	6.5242	\$	6.7179
6-May-2006	\$	6.9324	\$	7.0136	\$	6.8454	\$	7.0136
7-May-2006	\$	6.9324	\$	7.0136	\$	6.8454	\$	7.0136
8-May-2006	\$	6.9324	\$	7.0136	\$	6.8454	\$	7.0136
9-May-2006	\$	6.7013	\$	6.8403	\$	6.6109	\$	6.8403
10-May-2006	\$	6.7065	\$	6.8403	\$	6.6771	\$	6.8403
11-May-2006	\$	6.6500	\$	6.7740	\$	6.5701	\$	6.7740
12-May-2006	\$	6.9118	\$	7.0340	\$	6.8403	\$	7.0340
13-May-2006	\$	6.4190	\$	6.4987	\$	6.3917	\$	6.4987
14-May-2006	\$	6.4190	\$	6.4987	\$	6.3917	\$	6.4987
15-May-2006	\$	6.4190	\$	6.4987	\$	6.3917	\$	6.4987
16-May-2006	\$	5.9775	\$	6.0603	\$	5.9532	\$	6.0603
17-May-2006	\$	6.0751	\$	6.1775	\$	6.0603	\$	6.1775
18-May-2006	\$	6.2599	\$	6.3458	\$	6.2387	\$	6.3458
19-May-2006	\$	5.9416	\$	6.0093	\$	5.8615	\$	6.0093
20-May-2006	\$	5.9005	\$	6.0042	\$	5.8717	\$	6.0042
21-May-2006	\$	5.9005	\$	6.0042	\$	5.8717	\$	6.0042
22-May-2006	\$	5.9005	\$	6.0042	\$	5.8717	\$	6.0042
23-May-2006	\$	6.1059	\$	6.2183	\$	6.0603	\$	6.2183
24-May-2006	\$	6.4652	\$	6.6007	\$	6.4834	\$	6.6007
25-May-2006	\$	6.2085	\$	6.3866	\$	6.2081	\$	6.3866
26-May-2006	\$	6.0494	\$	6.2234	\$	5.9889	\$	6.2234
27-May-2006	\$	5.9467	\$	6.0807	\$	5.7952	\$	6.0807
28-May-2006	\$	5.9467	\$	6.0807	\$	5.7952	\$	6.0807
29-May-2006	\$	5.9467	\$	6.0807	\$	5.7952	\$	6.0807
30-May-2006	\$	5.9467	\$	6.0807	\$	5.7952	\$	6.0807
31-May-2006	\$	6.3831	\$	6.6516	\$	6.3611	\$	6.6516